COMMODITY ACTION PLAN

Background

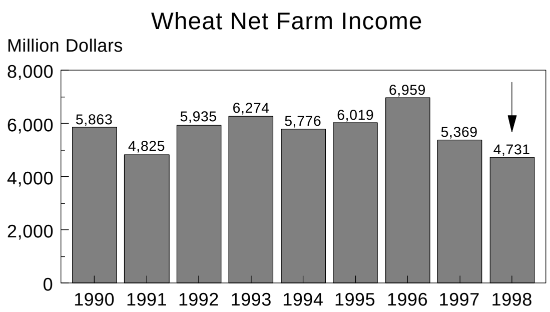
After a generally strong performance during 1996 and much of 1997, many sectors of the U.S. agricultural economy are now declining. Agricultural prices, net farm income and export sales set records in 1996 but have fallen since then, with particularly sharp declines for some commodities, and in some geographic regions, such as the Northern Plains.

In response to these developments and concerns increasingly expressed by the nation's farmers and ranchers, the Department of Agriculture (USDA) is taking a series of actions to provide assistance, and we are proposing additional measures, some of which will require Congressional action.

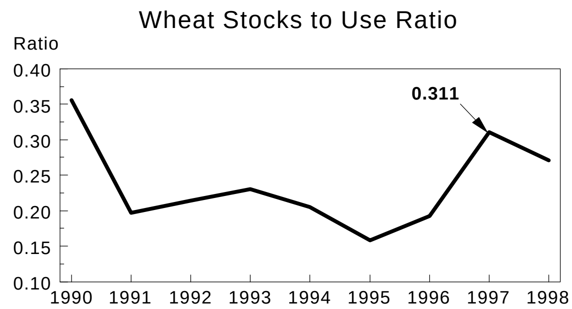
Economic Situation

A few key indicators illustrate the magnitude of the downward adjustments now taking place in U.S. agricultural markets. The Asian economic problems combined with lower U.S. commodity prices have reduced U.S. agricultural export values from nearly $60 billion in fiscal year (FY) 1996. USDA has forecast farm export at $56 billion for the current year. Net cash farm income–defined as gross farm cash income minus total farm cash expenses–is expected to fall to $51 billion in 1998, down from nearly $55 billion in 1997, and the aforementioned $60 billion in FY 1996. The drop is primarily due to lower crop receipts and higher production expenses.

The weakest commodity markets are wheat and hogs. Wheat prices are at their lowest level in 5 years, falling over 25 percent during the last 12 months. U.S. stocks compared with consumption are the highest since 1991, and prospects for a large 1998 winter wheat crop to begin harvest in late May will continue to pressure prices downward. The graph below at the left illustrates 1998 wheat farm net income projected at $4.7 billion, the lowest level in this decade. The graph on the right depicts U.S. stocks compared with consumption and shows 1997 is at 0.311, the highest level since 1991, with only a slight downward trend in stock levels so far this year.



Source: USDA/FSA



Source: USDA/FSA

The weak 1998 wheat market, combined with several years of crop disease, has been especially punishing for the Northern Plains states. Crop conditions around the world are generally favorable and longer term weather forecasts do not suggest problems for the 1998 growing season here or abroad. With limited sales expected to Asia this summer and into the fall and tough export competition expected from South America, favorable U.S. growing conditions would further aggravate the current decline in crop prices and farm financial conditions.

Wheat producers are facing farm-level prices that are expected to average only $3.40 per bushel for 1997/98 and will likely be lower for the 1998/99. The 1997/98 prices are more than $1.00 below levels for the prior 2 crop years. Current cash prices for wheat in Kansas City are currently near $3.25 per bushel. These prices reflect levels below $3.00 per bushel at the farm.

Due to the merger of western railroads, grain transportation problems are of special concern in 1997/98 due to bottlenecks and recent rule changes. In fact, several States routinely experience problems with railcar shortages and movement of grain before and during harvest.

Summary of Actions Supported By USDA

Below is a summary of the specific actions USDA is taking to help address these problems by improving the cash-flow and marketing flexibility for America's family farmers and boosting U.S. exports. It also includes additional measures supported by USDA that require Congressional action.

Improving Cash-flow and Marketing Flexibility

- USDA requested supplemental funding for additional farm loans, which was approved by Congress. The emergency supplemental appropriations bill was signed by President Clinton on May 1, 1998;

- USDA has called for the replenishment of the Food Security Commodity Reserve (FSCR). USDA will support legislation to allow unspent EEP funds to be used for this and other food aid purposes;

- USDA will support legislation to remove the cap on Commodity Credit Corporation (CCC) marketing loan rates;

- USDA is working to resolve railcar transportation problems and address long-term transportation needs for American family farmers by documenting critical issues and trends to ensure that federal transportation policies reflect the needs of American agriculture;

- USDA has proposed legislation to extend the term of CCC marketing loans beyond 9 months during periods of low prices or where transportation bottlenecks restrict marketability;

- USDA has proposed legislation to relax restrictions on producers regarding receipt of advance Production Flexibility Contract payments to provide that advance payments can be made as early as November 1 and not later than August 1;

- USDA has worked with Congress to obtain permanent funding of he Federal Crop Insurance Program as proposed in the President's Budget. USDA supports the provisions on permanent funding included in the pending Research Bill (S. 1150);

- USDA is adopting new, more liberalized procedures to speed up the availability of new crop insurance products in counties where coverage is not yet available;

- USDA has proposed the elimination of the Nonstandard Classification System, which unfairly penalizes certain producers who have made claims under the Federal Crop Insurance Program. The changes would take effect for the 1999 crop year;

- USDA is working with States to make sure that State initiatives to help farmers are workable and complement Federal programs such as crop insurance;

- USDA will publish a proposed rule to invite public comment on the “20-20 contiguous acre” prevented planting policy provision;

- USDA will soon publish 1997 karnal bunt compensation regulations to compensate producers who bear the primary burden of protecting the nation’s wheat supply from the threat of karnal bunt.

Boosting Exports

- USDA is developing and will soon implement a new use of EEP that will provide a stand-by bonus that would be paid to exporters if, despite their best efforts to meet import requirements, a cargo were rejected at destination. This new use of EEP will enable U.S. exporters to offer products in markets where the United States does not normally participate, not because we are not price-competitive, but because of some extraordinary risk. We anticipate the additionality achieved from the program will be significant, without adding to market distortions created by direct export subsidies;

- USDA will reactivate EEP to support sales of broilers to destinations in the Middle East. This is a measured initiative that will partially compensate our poultry industry for markets they have lost in Europe because of our continued lack of agreement on veterinary equivalency for poultry products;

- USDA supports legislation that would allow unused EEP funds to be redirected and spent for various food aid purposes at the end of the fiscal year. This would enable us to move more products into markets that cannot meet all their needs commercially;

- USDA will authorize sales of nearly 30,000 additional tons under the Dairy Export Incentive Program (DEIP) to account for tonnage awards that were previously reported to the WTO, but for various reasons never actually exported;

- USDA is reviewing its GSM credit authorities to see if GSM-102 or our direct credit authority can be operated in such a way as to match our competitors who have so called “national account” credit windows. Our competitors use their authorities to manage temporary risks that would restrict normal commercial trade. We believe this added flexibility can help producers maintain their competitiveness in certain circumstances;

- USDA has made an additional $60 million in GSM export credit guarantees available to South Korea for wheat which will help move approximately 575,000 tons of wheat overseas. This was part of the $400 million increase in our credit allocation for Korea announced on April 24;

- USDA will provide additional GSM export credit guarantees for wheat to other countries (including Mexico and Turkey) as well;

- USDA is making full use of P.L. 480 funding to ship wheat and other commodities to a number of locations. We are also considering ways to increase local currency sales of wheat under P.L. 480 Title I and use the proceeds for market development in promising markets such as Vietnam;

- USDA is working with USAID to increase donations of wheat under Title II of P.L. 480;

- USDA continues to help producers promote purchases of U.S. agricultural products overseas through the Market Access Program, the Foreign Market Development Program, the Cochran Fellowship program, and other programs;

- USDA has made it a key objective to put State Trading Enterprises at risk in the market place by eliminating their monopoly controls over imports and exports of agricultural products or imposing other meaningful disciplines in the next round of agricultural negotiations in the World Trade Organization (WTO), which will begin in 1999;

- USDA worked hard with Brazilian plant protection officials to demonstrate that TCK does not present a risk to Brazil, thereby allowing Brazil to lift its ban on shipments of U.S. wheat. This will allow us to ship approximately 200,000 additional tons of wheat this year. USDA is continuing to press other countries, including China, to accept our wheat as well;

- USDA is working diligently with Indian authorities to change import requirements that have made it difficult for U.S. companies to offer wheat to India. A number of requirements have been clarified or removed by Indian officials, but more work needs to be done. If we are successful, additional U.S. wheat export sales could total 300,000 tons;

- USDA is urging Chile, through bilateral negotiations and through the FTAA, to remove price bands that restrict U.S. agricultural exports.